



TfL Pension Fund – Public Sector Section

Actuarial valuation as at 31 March 2024

13 December 2024

Summary

The main results of the Section's actuarial valuation are as follows:

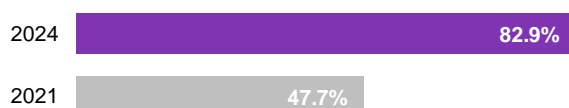
Technical provisions funding level as at 31 March 2024 has increased to 125.5% (2021: 101.4%)



Surplus of assets relative to technical provisions has increased to £3,044 million (2021: £179 million)



The Scheme Actuary's statutory estimate of solvency as at 31 March 2024 has increased to 82.9% (2021: 47.7%)



The rate of employer contributions required to meet the increase in technical provisions arising from the accrual of future service benefits has decreased to 18.0% of pensionable salaries (2021: 27.3%)



Contents

Summary

Introduction

- Scope
- Next steps
- Limitations

Funding

- Statutory funding objective
- Contribution requirements
- Projections and sensitivities

Solvency

- Discontinuance
- Statutory estimate of solvency
- Relationship between the cost of securing benefits and the technical provisions
- Projections and sensitivities

Additional information

- Risks
- Benefits summary
- Membership data
- Asset information
- Statutory Certificate
- Glossary

Throughout this report the following terms are used:

Fund

TfL Pension Fund

Section

Public Sector Section

Trustee

TfL Trustee Company Limited

Principal employer

TfL

Trust Deed & Rules

The Deed of Variation to adopt consolidated Trust Deed and Rules dated 2 December 2022

Introduction

Scope

This is my report on the actuarial valuation of the Public Sector Section (“the Section”) of the TfL Pension Fund (“the Fund”) as at 31 March 2024 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial valuation is required under Rule 43(3) of the Rules of the Fund and Part 3 of the Pensions Act 2004; a copy of this report must be provided to TfL in its capacity as Principal Employer and as representative for the other employers participating in the Section within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the Section relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the Section at 31 March 2024 using several different measures of its liabilities and how it has changed since the previous valuation at 31 March 2021. It also describes the strategy that has been agreed between the Trustee and TfL for financing the Section in future and provides commentary on how the funding position is expected to develop in future.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council’s Technical Actuarial Standards 100: General Actuarial Standards and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the Section and the level of contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out at 31 March 2027.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Section’s assets and technical provisions. The next such report, which will have an effective date of 31 March 2025, must be completed by 31 March 2026.

Gareth Oxtoby
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company
13 December 2024

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[https://wtwonlineuk.sharepoint.com/sites/tctclient_615748_TfLTR24Val/Documents/7. Reporting \(CO\)/7.1 Valn report/PSS Valuation report 31 March 2024 - final.docx](https://wtwonlineuk.sharepoint.com/sites/tctclient_615748_TfLTR24Val/Documents/7. Reporting (CO)/7.1 Valn report/PSS Valuation report 31 March 2024 - final.docx)



Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Section for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The membership data at 31 March 2024 was provided by the Fund office on 23 May 2024 and 8 July 2024.

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the employers who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

In particular, in relation to the assets, we have based our calculations on the Trustee Report & Accounts provided by the Fund office. We understand that the asset value has been assessed on an ongoing basis. It should be noted that if all of the Section's assets were to be realised at short notice, the amount raised may be lower than the value in the asset statement. This is particularly the case for the Section's illiquid assets.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Section, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the Data Protection Act). Data controllers would include the Trustee of the Fund and may also include the Scheme Actuary and WTW, so we have provided further details on the way we may use this data on our website at <https://www.wtwco.com/en-GB/Notices/how-willis-towers-watson-uses-personal-data-for-actuarial-services-to-uk-pension-scheme-trustees>.

Assumptions

The choice of long-term assumptions, as set out in the Section's Statement of Funding Principles dated 13 December 2024, is the responsibility of the Trustee, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Section's experience from time to time to be better or worse than that assumed. The Trustee and TfL must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Section is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk.

Further information on the main risks affecting the Section and the actions taken to manage them is set out in the Additional Information section.

The Trustee has considered how climate-related risks might manifest themselves within the Fund and the assumptions adopted for the funding of the Section are intended to contain an appropriate degree of prudence taking into account these risks.

The structure of the WTW Investment model, used to determine the spread of likely future outcomes for the Section's finances, is based on an historical analysis of investment returns, although WTW has incorporated its subjective judgement to complement the information provided by historical returns. The model is designed to illustrate the future range of returns stemming from different asset classes and their inter-relationship and the consequent uncertainty in the future financial development of the Section. It should be noted that no economic model could be expected to capture future uncertainty perfectly or to be precise about the risk of extreme events. In particular, it should be noted that the timeframe in establishing our asset model and the assumptions used in this investigation are intentionally long-term, and are not meant to be reflective of the possible, or even likely, course of the investment markets in the short term.

Funding

Statutory funding objective

The Trustee's only formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Section's technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service only up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Section over the next 80 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 March 2024 have been agreed between the Trustee and TfL and are documented in the Statement of Funding Principles dated 13 December 2024. For the purposes of this 2024 actuarial valuation of the Section, whilst the assumptions taken as a whole have been agreed by the Trustee and TfL, TfL's view is that the assumptions regarding pensionable salary growth and age difference at death for female members contain a greater degree of prudence than it considers necessary. As a result, these 2024 assumptions should not be treated as setting a precedent for future valuations, for which the assumptions will be determined taking into account available information at that time.

The table below summarises the main assumptions used to calculate the Section's technical provisions for this and the previous actuarial valuation.

Financial assumptions	31 March 2024 % pa	31 March 2021 % pa
Discount rate for valuing accrued benefits ¹	Term dependent discount rate trending from a real return of 2.5% pa to a real return of 2.2% pa over 4 years to 1 April 2028 (SER 5.75% pa)	Term dependent discount rate trending from a real return of 0.9% pa to a real return of 0.6% pa over 7 years to 1 April 2028 (SER 4.1% pa)
Discount rate for calculating cost of future service accrual ¹	Real return of 3.05% pa (SER 6.6% pa)	Real return of 1.5% pa (SER 4.9% pa)
RPI inflation ²	Gilt market-implied RPI inflation curve	Gilt market-implied RPI inflation curve
CPI inflation	RPI inflation curve, less 1.0% pa before 2030 (no adjustment thereafter)	RPI inflation curve, less 1.0% pa before 2030 (no adjustment thereafter)
General pensionable salary increases	In line with RPI inflation curve (SER 3.65% pa)	In line with RPI inflation curve (SER 3.55% pa)
Deferred pension revaluation		
- GMP (Section 148)	RPI inflation curve plus 0.25% pa (SER 3.4% pa)	RPI inflation curve plus 0.25% pa (SER 3.85% pa)
- Non-GMP - Existing Members ^{2,3}	RPI-based (SER 3.2% pa)	RPI-based (SER 3.5% pa)
- Non-GMP - New Members ^{2,3}	RPI-based (SER 3.15% pa)	RPI-based (SER 3.3% pa)

Financial assumptions	31 March 2024 % pa	31 March 2021 % pa
Pension increases in payment		
- Pre-6.4.88 GMP	0.00%	0.00%
- Post-5.4.88 GMP ^{2,3}	CPI-based (SER 2.5% pa)	CPI-based (SER 2.3% pa)
- Non-GMP - Existing Members ^{2,3}	RPI-based (SER 4.05% pa)	RPI-based (SER 3.5% pa)
- Non-GMP - New Members ^{2,3}	RPI-based (SER 3.2% pa)	RPI-based (SER 3.1% pa)

1. Real rates quoted are compounded with assumed RPI inflation to obtain nominal discount rates. The discount rates adopted as at 31 March 2024 incorporate a deduction of 0.3% pa as an allowance for future de-risking to take place after the valuation date.
2. SER = approximate single equivalent rate, weighted by relevant expected benefit cashflows and including timing adjustments where relevant. The shape of the underlying RPI inflation curve at 31 March 2024 was quite different to that at 31 March 2021.
3. Adjusted for caps and floors as appropriate, allowing for inflation volatility

Current mortality rates for deferred pensioners and pensioners are assumed to be in line with the tables summarised below, projected to 2024 in line with the CMI_2023 1.5% model for the appropriate gender. (For the 2021 valuation, mortality rates in deferment and in payment were assumed to be in line with the tables shown below, projected to 2021 in line with the CMI_2020 1.5% model for the appropriate gender.)

Mortality assumptions	31 March 2024	31 March 2021
Male members who retire on grounds of ill health	S4IMA x 115%	S3IMA x 123%
Female members who retire on grounds of ill health	S4IFA x 111%	S3IFA x 151%
Other male members	S4PMA_M x 105%	S3PMA_M x 112%
Other female members	S4PFA_G2 x 98%	S3NFA_H x 100%
Male dependants	S4PMA_G1 x 105%	S3NMA_H x 137%
Female dependants	S4DFA_G2 x 97%	S3DFA x 114%

Allowance is made for mortality improvements after 2024 in line with the default parameterisation of the CMI_2023 1.5% model for the appropriate gender, with the core value of the smoothing parameter (S_k) of 7.0 and an initial addition to mortality improvements (A) of 0%. (For the 2021 valuation, allowance was made for mortality improvements after 2021 in line with the CMI_2020 1.5% model for the appropriate gender with the core value of the smoothing parameter (S_k) of 7.0 and an initial addition to mortality improvements (A) of 0%.)

Please see the Statement of Funding Principles for a full description of the assumptions.

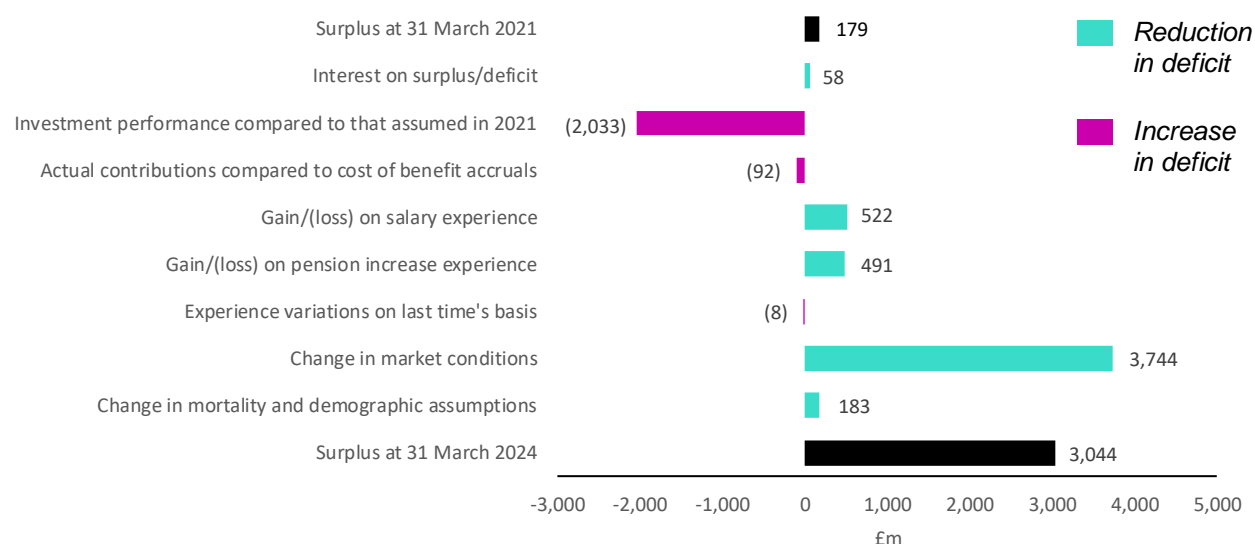
Funding position

The table below compares the Section's technical provisions as at the date of the actuarial valuation (31 March 2024) with the market value of the Section's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 March 2024	31 March 2021
	£m	£m
Amount required to provide for the Section's liabilities in respect of:		
Employed members	4,867	5,713
Deferred pensioners	1,418	1,674
Pensioners and dependants	5,459	5,348
+ reserve for GMP equalisation	59	64
+ AVCs and other money purchase benefits	151	107
Technical provisions	11,954	12,906
Market value of assets	14,998	13,085
Past service (deficit)/surplus (assets less technical provisions)	3,044	179
Funding level (assets ÷ technical provisions)	125.5%	101.4%

Developments since the previous valuation

The funding level has increased to 125.5% from 101.4% at the previous valuation, with a large increase in surplus from £179 million to £3,044 million. The main factors contributing to this increase are shown below.



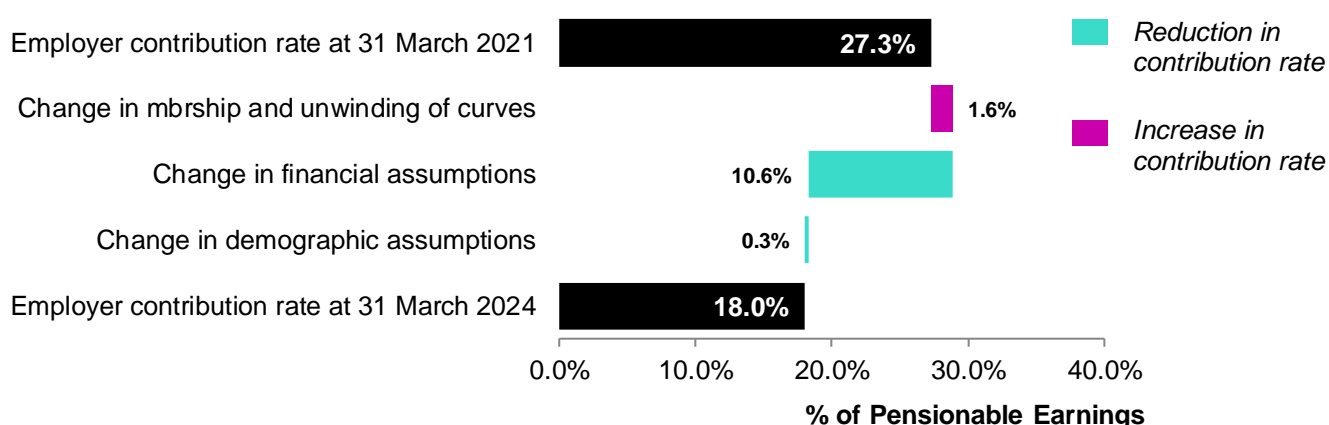
Contribution requirements

Future accrual of benefits

Under the method and assumptions described in the Statement of Funding Principles, the annual employer contribution rate needed to provide the benefits that are expected to be accrued in the Section after the valuation date is 18.0% of the relevant pay definition (as set out in Fund rule 13 for the purpose of calculating members' contributions). This rate includes 0.4% of the total of the relevant pay definition in respect of non-investment expenses and 1.3% of the total of the relevant pay definition in respect of PPF and other levies.

The employer future service contribution rate has been calculated as the rate required over the year following the valuation date, in addition to member contributions of 5% of the relevant pay definition, to meet the cost of benefits expected to be accrued over that year. On this basis, this rate will be sufficient, if the assumptions are borne out in practice, to cover the accrual of benefits in the future provided the age, gender and pensionable earnings profile of the employed membership remains reasonably stable.

An analysis of the change in ongoing employer contribution rate from 31 March 2021 to 31 March 2024 is shown in the chart below. The main reason for the decrease in the required contribution rate is the change in financial assumptions, specifically the large increase in the real discount rate resulting in a much lower value being placed on future accrual.



Schedule of Contributions and surplus amortisation

As there were sufficient assets to cover the Section’s technical provisions at the valuation date, the Trustee and TfL are not required to agree a recovery plan.

Under the Schedule of Contributions agreed following the 2021 valuation of the Section, the employers were paying total contributions of 27.3% of the relevant pay definition. Reflecting the results summarised above, the Trustee and TfL have agreed a revised Schedule of Contributions which covers a five year period from 13 December 2024.

Under Fund Rule 16(3), in a scenario where an actuarial valuation shows an excess of assets over liabilities, all or part of such excess may be used to reduce the employer’s contribution, by such an amount as the Actuary considers will, if maintained on a consistent basis over a period of not less than 10 years, eliminate such excess. However, under Rule 16(5) employer contributions are subject to a minimum of 2 1/3 times member contributions for Existing members, and 2.1 times member contributions for New members. The surplus revealed as at 31 March 2024 is more than sufficient for employer contributions to be maintained at the minimum rates payable under the Fund Rules for the duration of the Schedule of Contributions. This will only use up part of the disclosed surplus, with the majority being retained in the Section as a buffer against future adverse movements.

With effect from 15 December 2024, the employers will therefore pay contributions of:

- 11.67% for Existing members
- 10.50% for New members

of the relevant pay definition (as set out in Rule 13 of the Trust Deed and Rules for the purpose of calculation Members’ contributions).

If the assumptions documented in the Statement of Funding Principles are borne out in practice, the Section will continue to be fully funded at the end of that five year period.

Contingent Funding Framework

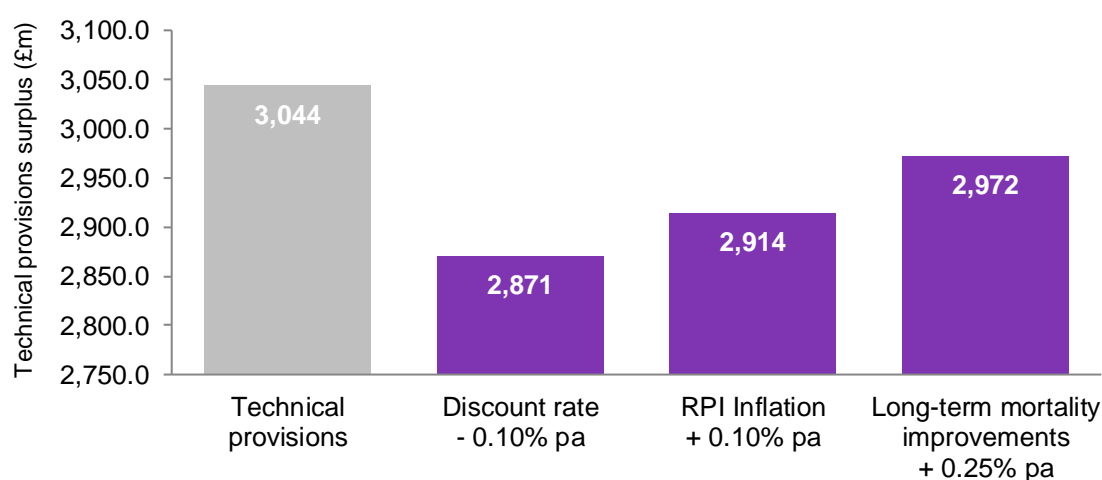
As part of the 2021 valuation process, the Trustee updated the Pensions Funding Agreement (PFA) with TfL, first entered into in the 2018 valuation. The PFA set out a framework for increasing TfL's contributions to the Section in future if experience is worse than anticipated. Depending on the extent of the deterioration revealed by future actuarial valuations, the PFA defines a number of predetermined steps by which the amount, or duration, of deficit contributions will be increased. This provides a legally binding commitment from TfL to make additional deficit contributions should they be required. This Agreement represented a significant strengthening of the legally enforceable sponsor covenant provided to the Section by TfL.

An updated version of the PFA has been agreed in conjunction with this 2024 actuarial valuation, covering the period up to and including the 2030 and 2033 actuarial valuations of the Section.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Section's technical provisions as at 31 March 2024 and allowing for contributions to be paid to the Section as described above, the funding level is expected to reduce slightly over the period covered by the new Schedule of Contributions – but remain well in excess of 100%.

The chart below illustrates the sensitivity of the technical provisions as at 31 March 2024 to variations of individual assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Solvency

Discontinuance

In the event that the Section is discontinued, the benefits of employed members would crystallise and become deferred pensions in the Section. There would be no entitlement to further accrual of benefits.

If the Section's discontinuance is not the result of the insolvency of the employers, the employers would ultimately be required to pay to the Section any deficit between the Scheme Actuary's estimate of the full cost of securing Section benefits with an insurance company (including expenses) and the value of the Section's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments.

If the Section's discontinuance is a result of the insolvency of the employers, the "employer debt" would be determined as above and the Section would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from TfL) were not sufficient to secure benefits equal to the PPF compensation then the Section would be admitted to and members compensated by the PPF. Otherwise the Section would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Section at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Section at the valuation date. For this purpose I have assumed that no further payments are received from the employers.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by WTW at around the valuation date. I have assumed the cost of implementing the winding-up to be approximately 0.9% of the estimated value of the solvency liabilities (leading to assumed winding-up costs of £157 million). I have also included in the expense reserve an allowance for potential discounts of 15% to market value on the Section's alternative assets assuming that these needed to be sold in a wind-up scenario,

The table below summarises how the main assumptions used to estimate the Section's solvency position at this and the previous actuarial valuation differ from the assumptions used to calculate the technical provisions liabilities.

Financial assumptions	31 March 2024	31 March 2021
	% pa	% pa
Pensioner discount rate	Nominal gilt yield curve plus 0.2% pa	Nominal gilt yield curve plus 0.15% pa
Non-pensioner discount rate	Nominal gilt yield curve less 0.3% pa	Nominal gilt yield curve less 0.35% pa
CPI inflation	RPI inflation curve, less 0.7% pa before 2030 and nil thereafter	RPI inflation curve, less 0.7% pa before 2030 and nil thereafter

Demographic assumptions	31 March 2024	31 March 2021
Future improvements in longevity	2022 CMI projections with a long term rate of 1.5% pa, with core weightings for recent data, smoothing parameter of 7.0 and initial addition (A) of 0.25% pa	2019 CMI projections with a long term rate of 1.5% pa, with smoothing parameter of 7.5 and initial addition (A) of 0.25% pa
Allowance for commutation	0%	0%

My estimate of the solvency position of the Section as at 31 March 2024 is that the assets of the Section would have met 82.9% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 March 2024	31 March 2021
	£m	£m
Estimated cost of buying insurance policies to cover:		
Employed members	8,248	15,019
Deferred pensioners	2,152	4,049
Pensioners and dependants	6,470	7,888
+ reserve for GMP equalisation	84	135
+ expense reserve	985	207
+ AVCs and other money purchase benefits	151	107
Total estimated cost	18,090	27,405
Market value of assets	14,998	13,085
Solvency (deficit)/surplus (assets less total estimated cost)	(3,092)	(14,320)
Solvency level (assets ÷ total estimated cost)	82.9%	47.7%

The change in the solvency level from 47.7% to 82.9% is due mainly to changes in market conditions, in particular the very large increase in nominal gilt yields (with yields increasing from around 1.3%pa to 4.3%pa) which underlie the assumptions used to estimate insurance company pricing, which has become much cheaper as a result.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Fund's own rules and would normally be that they are secured in full before any other benefits.

category 1 – benefits relating to certain pension annuities secured by the Section before 6 April 1997 (of which I understand there are none for the Section);

category 2 – the cost to the Section of securing the compensation that would otherwise be payable by the PPF if the Employer became insolvent;

category 3 – benefits in respect of defined benefit AVCs not dealt with above;

category 4 – all other pensions and benefits due under the Section, including pension increases (where these exceed those under the PPF).

As the Section assets covered the Section 179 liabilities as at 31 March 2024 but were less than the estimated cost of securing benefits with an insurer, the Section would probably not have qualified for entry to the PPF had the Employer become insolvent at 31 March 2024. In this case, members would have received benefits as far as the Section’s assets could afford, purchased in the order set out above. While I have not carried out any calculations in this regard, taking the Section 179 liabilities as a proxy for the cost of insuring the PPF benefits, the assets at the valuation date would have been sufficient to purchase all of the benefits covered by categories 1 to 3 above and approximately half of those in category 4.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £18,090 million is £6,136 million higher than the Section’s technical provisions of £11,954 million.

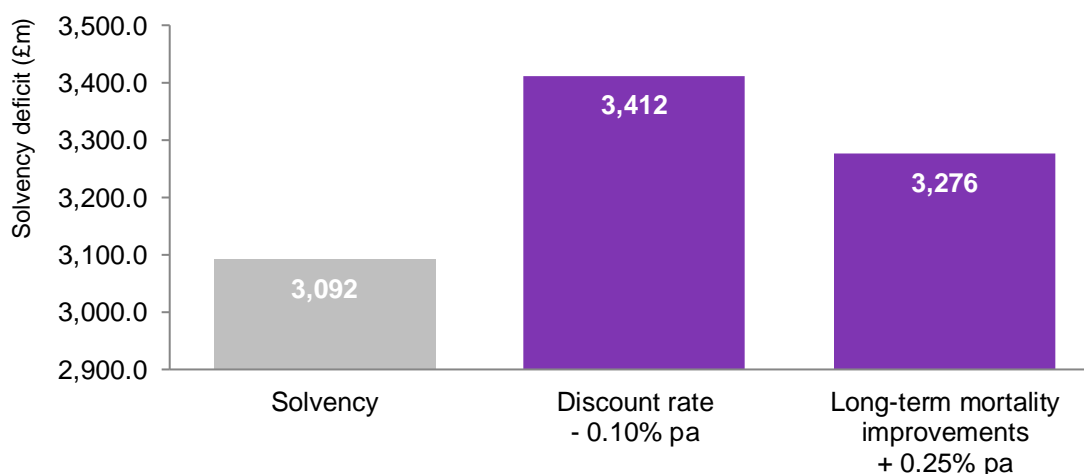
The technical provisions are intended to be a prudent assessment of the assets required under the Section’s investment strategy to meet future benefit payments as and when they fall due on an ongoing basis, but with reliance placed on the employers being able to support the Section in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Section without having recourse to future contributions from the employers, and includes allowance for an assumed write-down on a forced sale of the Section’s alternative assets.

If the statutory funding objective had been exactly met on 31 March 2024 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Section would have been 66%. This compares with 47% at the 31 March 2021 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Section’s technical provisions as at 31 March 2024 and allowing for contributions to be paid to the Section as summarised in the Funding section of this report, the solvency level is projected to reduce slightly by the expected date of the next actuarial valuation, due to ongoing contributions for future accrual being below the cost of that accrual on a solvency basis.

The chart below illustrates the sensitivity of the solvency position as at 31 March 2024 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Additional Information

Risks

The table below summarises the main risks to the financial position of the Section and the actions taken to manage them:

Risk	Approach taken to risk
Employers unable to pay contributions or make good deficits in the future	<p>At each valuation the Trustee takes advice from an independent specialist on the ability of the employers to pay contributions to the Section and, in particular, to make good any shortfall that may arise if the experience of the Section is adverse.</p> <p>This advice is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions.</p> <p>Between valuations the Trustee monitors the employers' financial strength regularly.</p>
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	<p>The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Section's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Section's assets.</p> <p>The Trustee is able to agree further contributions with the employers at subsequent valuations if future returns prove insufficient.</p>
Investment returns on future income could be lower than the returns available at the valuation date	<p>The Trustee takes this risk into account when determining the Section's technical provisions, by incorporating a level of prudence into the investment return assumptions.</p> <p>The Section currently hedges around 30% of its exposure to changes in interest rates.</p>
Price inflation could be different from that assumed which could result in higher liabilities	<p>The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds.</p> <p>The Section currently hedges around 30% of its exposure to inflation risk.</p>
Falls in asset values might not be matched by similar falls in the value of the Section's liabilities	<p>The Trustee considers this risk when determining the Section's investment strategy. It consults with the TfL in order to understand the TfL's appetite for bearing this risk and takes advice on the employers' ability to make good any shortfall that may arise.</p> <p>To the extent that such falls in asset values result in deficits at future valuations, TfL would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.</p>
Members live longer than assumed	<p>For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary.</p>
Options exercised by members could lead to increases in the Section's liabilities	<p>The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Section's finances as far as is reasonably possible without disadvantaging members.</p> <p>The terms are kept under regular review, generally following each actuarial valuation.</p>
Legislative changes could lead to increases in the Section's liabilities	<p>The Trustee takes legal and actuarial advice on changes in legislation and consults with TfL, where relevant.</p>
Changing patterns of weather, temperature or disease could adversely affect the funding of the Section	<p>The Trustee recognises that climate-related issues represent a material risk to future economic stability in the long term, with potentially wide-ranging impacts on environmental, societal and governance matters. From the perspective of the funding of the Section the key ways these risks could manifest themselves are through unmatched falls in asset values, members living longer than assumed or a reduction in the strength of the Employer covenant. Each of these particular risks are separately addressed above.</p>

Economic risk
Demographic risk
Legal risk
Climate risk

Clearly the likelihood and impact of some of the risks above are linked. For example:

- The likelihood of the Employer not being able to pay contributions will be linked to the Section's funding position, with circumstances that both worsen the funding position and weaken the Employer's covenant of particular concern;
- As set out above, climate-related risks can affect the strength of the Employer, investment returns and life expectancy;
- Inflation being different to that assumed can affect both the Section's funding position and the strength of the Employer.

In addition the likelihood and impact of the risks occurring will vary over time. For example:

- The risk of movements in asset values leading to a worsening in the Section's funding position might be expected to reduce over time if the Trustee increases its investments in assets that are a better match to the Section's liabilities;
- The likelihood of the Employer being unable to pay contributions on time will reduce over time as the Section's funding position is expected to improve (to the extent that over time, actual experience is more favourable than the prudent assumptions made for funding purposes).

Benefits summary

The Section is a registered pension scheme under the Finance Act 2004 and was previously contracted-out of the State Second Pension.

The main provisions of the Fund are the same for each section and are summarised as follows:

Existing members:	Mainly those who joined the Fund on or before 1 April 1989
New members:	Mainly those who joined the Fund after 1 April 1989
Scheme Pension Age (SPA):	Age 65 for men and women
Pensionable salary:	The greater of salary over the 12 months preceding date of retirement/leaving and total Contributory Pensionable Salary over the same period
Contributory Pensionable Salary:	Set each April as the annual rate of salary as at previous November

Note: for the purposes of the above two definitions

- *For an Existing Member, salary means basic salary excluding fluctuating emoluments but including any permanent additional allowance with the consent of the Principal Employer and the Trustee.*
- *For New Members, salary is as for Existing Members but less the Lower Earnings Limit.*
- *For LUL Company Plan Employees, salary is multiplied by 90% for pre-6 April 1998 accruals and by 100% for post-5 April 1998 accruals.*

Total Membership:	Service as a contributing member of the Fund, plus service credited by transfers-in or any other service granted by the former LT Board and Trustee.
Retirement at SPA:	A pension equal to one-sixtieth of Pensionable Salary for each year of Total Membership less, for Existing Members, £10.10 pa for each year of Total Membership after 1 October 1993.
Retirement before SPA, on grounds of ill-health:	Subject to 5 years' service, an immediate pension calculated as for retirement at SPA but based on Total Membership at retirement, plus an extra period equal to the shorter of 10 years and prospective service to SPA.
Retirement before SPA, not on grounds of ill health:	An immediate pension calculated as for retirement at SPA, but reduced for early payment. No reduction applies on retirement on or after age 60.
Lump Sum at Retirement:	On retirement part of the pension may be exchanged for a lump sum.
Death after Retirement:	A dependant's pension equal to one half of the pension which would have been in payment at the date of death assuming no pension was commuted or surrendered at retirement. Children's allowances are also paid.
Death in Service	A lump sum of 4 times Pensionable salary. A dependant's pension equal to one half of the pension which the member would have received on retirement on grounds of ill health at the date of death. Children's allowances are also paid.

Leaving Service	If under 3 months' total membership, members are entitled to a refund of their contributions. If over 3 months' and less than 2 years' total membership, members have the option to take a deferred pension, a transfer value or a refund of their contributions. If 2 years' or more total membership, members have the option to take a deferred pension or a transfer value. A dependant's pension of one half of the member's deferred pension is paid on death before SPA provided that the member had completed at least 2 years' total membership.
Pension Increases	
- Existing members	Pensions in excess of any GMP in payment are guaranteed to be increased each year in line with retail price inflation.
- New members	Pensions in excess of any GMP in payment are guaranteed to be increased each year in line with retail price inflation up to 5% pa.
- All members	The GMP arising from service between 6 April 1988 and 5 April 1997 is increased each year when in payment in line with consumer price inflation up to 3% pa.
Revaluation in deferment	Increases in deferment on pensions in excess of any GMP are the same as those awarded to pensions in payment.
Contributions:	Members pay 5% of Contributory Pensionable Salary, less £20 a year for Existing Members. Members may also pay additional voluntary contributions to increase their benefits.
	Employers make up any balance of cost of meeting the Fund's benefits.

Discretionary benefits

No future discretionary benefits or discretionary increases in benefit have been allowed for in the calculation of the technical provisions and statutory estimate of solvency, other than our understanding of established practices in benefit calculations.

Changes to the benefits

Since the valuation as at 31 March 2021 no changes have been made to the Section's benefits.

Uncertainty about the benefits

An allowance of 0.5% of liabilities has been made in the calculation of the technical provisions and statutory estimate of solvency as an estimate for the possible changes to the benefits that may be required to ensure that the Fund provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

I am not aware of, and no allowance has been made in the valuation for, the benefits being different from those described in the Section's governing documents due to execution risks such as those arising in the Virgin Media case or other conflicts with legislation.

Membership data

A summary of the data provided for this and the previous valuation is presented below.

Number of members

Number	31 March 2024			31 March 2021		
	Males	Females	Total	Males	Females	Total
Active members	19,498	6,719	26,217	19,413	6,192	25,605
Deferred pensioners	10,986	5,275	16,261	11,575	5,065	16,640
Pensioners	28,248	4,523	32,771	28,063	4,209	32,272
Adult dependants	375	9,091	9,466	361	9,184	9,545
Children	376	348	724	376	333	709
Total	59,483	25,956	85,439	59,788	24,983	84,771

Annual salary or pension

£m	31 March 2024			31 March 2021		
	Males	Females	Total	Males	Females	Total
Pensionable salaries	1,055.5	318.7	1,374.2	913.6	255.0	1,168.6
Deferred pensions	57.6	26.9	84.5	53.0	21.5	74.5
Pensioners' pensions	304.3	32.4	336.7	251.3	23.9	275.2
Adult dependants' pensions	2.0	52.7	54.7	1.5	43.7	45.2
Children's pensions	1.3	1.2	2.5	1.1	0.9	2.0

Average age

Years	31 March 2024			31 March 2021		
	Males	Females	All	Males	Females	All
Active members	47.0	44.2	46.4	47.0	43.6	46.3
Deferred pensioners	52.6	50.4	51.9	52.0	49.2	51.2
Pensioners	71.0	68.5	70.8	70.3	68.6	70.2
Adult dependants	68.3	77.1	76.8	67.2	76.5	76.2
Children	26.6	24.5	25.6	25.7	24.1	25.0

Notes on data tables:

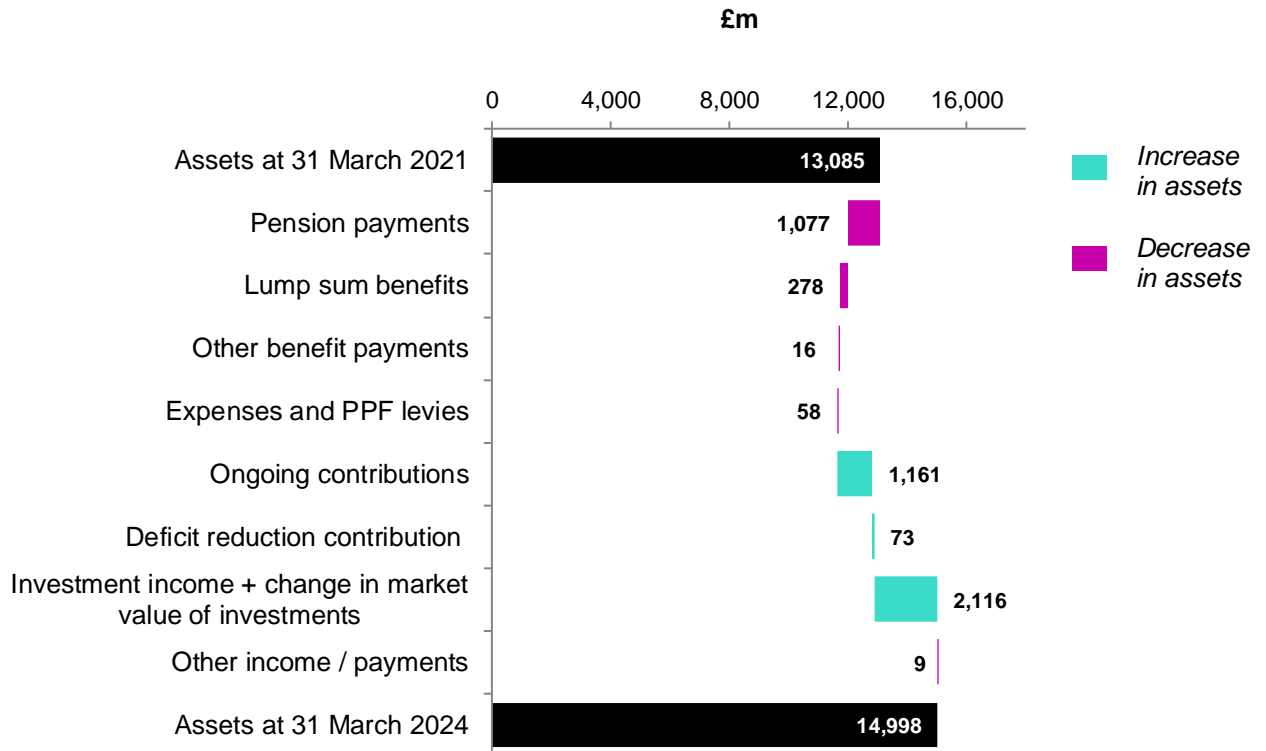
- Figures in respect of deferred pensioners and pensioners include pension credit members.
- Deferred pension amounts include revaluation to the valuation date.
- The pensionable salaries shown are annualised full-time equivalent pensionable salaries for all members and are after the deduction of the Lower Earnings Limit for New Members.
- The annual pensions shown (for pensions in payment and deferred pensions) exclude the 1 April increase immediately after the effective date.
- Pension increases applied to the excess over the GMP over the intervaluation period were as follows:
 - 1 April 2021 1.1% (Existing and New members).
 - 1 April 2022 4.9% (Existing and New members).
 - 1 April 2023 12.6% (Existing members) and 5.0% (New members).
 - 1 April 2024 8.9% (Existing members) and 5.0% (New members).
- Average ages are weighted by pensionable salaries or pensions as appropriate.

Asset information

Movements in the market value of assets

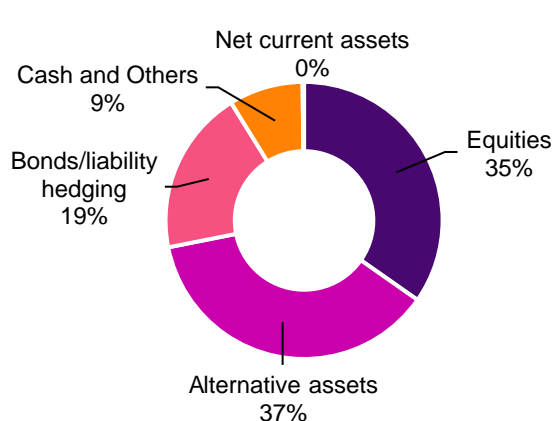
The audited accounts supplied as at 31 March 2024 show that the market value of the Section’s assets was £14,998 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £151 million.

The change in the Section’s assets (including AVCs) from £13,085 million as at 31 March 2021 to £14,998 million as at 31 March 2024 is detailed in the Trustee’s Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change (including AVCs):



Investment strategy

A summary of the Fund’s strategic investment benchmark at 31 March 2024 is set out below:



The assets, excluding AVCs, were invested as summarised below as at 31 March 2024 and 31 March 2021:

	Market value as at 31 March 2024		Market value as at 31 March 2021	
	£m	%	£m	%
Equities	5,156	34.7%	5,781	44.5%
Alternative assets	5,518	37.2%	5,313	40.9%
Bonds/liability hedging	2,862	19.3%	1,601	12.3%
Cash and Others	1,286	8.7%	283	2.2%
Net current assets	25	0.2%	-	0.0%
Total	14,847	100.0%	12,978	100.0%

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **TfL Pension Fund – Public Sector Section**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Section's technical provisions as at 31 March 2024 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Fund and set out in the Statement of Funding Principles dated 13 December 2024.

Gareth Oxtoby
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company
13 December 2024

Watson House
London Road
Reigate
Surrey
RH2 9PQ

Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Section's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Section members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Section and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Section. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Section, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued

liabilities of the Section. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Fund.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which

govern the funding of occupational defined benefit pension schemes in the UK.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Section's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Section (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Section's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Section.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.